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Influence of Executives

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IN attempting to rate the influence of executives on production we must recognize the fact that under our present methods executives as a rule seem to favor that system of production which to the greatest possible extent relieves them of responsibility.

Throughout our whole system of production there is a tendency to blame the man lower down, rather than the man higher up, with the result that the man in the shop may be reprimanded, or even discharged, for an error in judgment which caused the loss of a few dollars, while the man at the top, making a similar error in judgment costing thousands of dollars, too frequently gets by without anybody's knowing that the loss was due to his failure.

The existence of such a condition is not only detrimental to the business system as a whole, but produces great hardships upon the workmen as individuals. It is not claimed that executives in general desire to shirk their responsibility and place the blame on others, but our business methods are still dominated by the spirit of the past, which was, "the king can do no wrong," that is to say, if a man has the power to do a thing, it is right for him to do it, or, as he would put it, "he has a right to do it." The flaw in this reasoning is in the meaning of the word *right*. All will agree that no man has a right to do wrong; but we must understand more clearly what we mean by *right* and *wrong*. A bridge is right when it will carry the load for which it was designed, wrong when it will not. *In an economic or a moral sense an action is right when it will advance the cause of humanity, and wrong when it will not;* hence, it is stretching the meaning of the word to apply it to a question of fashions.

The Germans thought that which they expected would advance *their* cause was right, no matter what effect it had on other peoples. We fought to resist the application of this idea, and may always expect conflict when an attempt is made to assert a "right" to the detriment of others. It is not hinted that the business man intentionally does wrong by making a decision that will in

the long run be detrimental; he simply uses the best information he has, which frequently is not enough. Nor have we as a rule such information as to the results of his action as to be able to make clear what they really were. We have comparatively accurate methods of measuring the performance of workmen, but until recently we have had almost no methods of measuring the effectiveness of executives except the profits made by the business.

If the business does not make profits, we naturally blame those causes we can see, and ignore those we can't see; this is the reason the shop gets the blame, and the office often goes free. If the business makes money the executives always get credit; but inasmuch as the elements entering into profits are numerous and intricate, they are not by any means a safe estimate for the effectiveness of the executives as producers. In fact, many times increased profits are made by cutting down production, even though the community may be sadly in need of the product. This, according to the present business system, is "good judgment" although it may be detrimental to the public. Our conclusion is that the influence of executives on production can be determined only by a careful record of how the facilities at their command are being used.

An analysis of many manufacturing plants indicates that in but few cases are the machines and equipment in active use more than one-half the working time. Recognizing that it is one function of the executive to keep the plant in operation, we can find out how he is performing that function by asking in detail why his machines are idle. We find that the reasons may be summed up under a few heads, such as, lack of orders, lack of material to apply on orders already received, lack of help to work on the available material, the fact that the machinery may not be in proper condition to operate, etc.

These are functions over which the workman, as such, has no influence whatever, and are exclusively within the realm of executives. If the plant is short of work an executive must take up the question with the salesmen and the shop superintendent. He will determine:

1. What kind of work is needed to use the machines that are idle.
2. Whether there is such work to be had.
3. Whether he can afford to do it at the prevailing prices.

It is always possible to determine what kind of work is needed to keep the machines busy, and to find out if there is such work to be had in the market; but without a very full knowledge of costs it may not be possible to know whether that work can be done by the factory at the prevailing prices.

The cost systems most commonly used, namely, those in which all the expense of the plant, whether it was used for production or not, is made a part of the cost of the articles produced, do not give us any satisfactory solution of this problem. We should not be surprised at this *for a cost system which puts upon the product of one machine the expense of maintaining in idleness another machine which did not in any way influence the product, is fundamentally false.* It is based on the theory that invested money must return profit, or interest, whether it is used productively or not. This theory has held sway for so long that it is generally accepted in the business world as an axiom. It is so far from being an axiom, however, that I am very thoroughly convinced that it has had a more detrimental effect upon business and the community as a whole than any other single item. In fact, I sometimes feel that it has been more detrimental to our business and industrial system than all the other items combined.

In our first attempt to find out whether we can afford to take an order or not, we must find out what expense we should be under for maintaining our equipment in idleness, if we did not take the order; for it is perfectly well understood by all thinkers on the subject that idle machinery is idle capital on which we lose not only the interest, but the depreciation, taxes, and insurance on the machinery as well. If failing to take an order would cause idleness of machinery and equipment, we should incur an expense if we did not take it; moreover, we should lose a part of our organization through the above mentioned idleness. If we took the order at a loss equivalent to that caused by the above mentioned idleness, we should still be ahead, for we should not lose our organization. It is clear, then, that if we took the order and maintained our organization, we should be in better condition than our competitor who did not take a similar order and not only incurred the expense due to idleness, but lost a certain portion of his organization.

To those who have not figured the expense of maintaining

machinery in idleness, the amount of such expense in the ordinary manufacturing plant comes with a great shock.

Figure I shows what this amounts to for various causes in a comparatively small plant. It also shows in a most marked way how lack of judgment on the part of an executive may create a very serious loss which would not be recognized unless the analysis shown on this chart is carefully studied.

It will be noted that on the winding machines there was an expense of \$103.74 due to idleness because of lack of help. Without a careful investigation it might escape one's notice that this lack of help had a very marked effect on the whole expense of the mill. There was an expense of idle warping machines of \$390.75, due to lack of wound yarn, much of which would have been avoided if the winding machines had run more continuously. The looms had an idle expense of \$840.25, due to lack of warps, also directly traceable to the fact that the yarn was not wound. The Finishing Department had an expense of \$210.72 because goods were not woven. Also, the Shipping and Inspecting Departments had high expense, due to the fact that the goods were not woven because there was not sufficient yarn; the yarn was not wound because there was not sufficient help.

Such an analysis naturally places the responsibility where it belongs—probably on the labor policy, which is dominated by the chief executive.

It is just such studies as this, made in numerous plants, that have convinced us that a study of idleness is much more effective in increasing the output of the plant than the study of efficiency, as it has been studied. In general, the efficiency engineer studies a few men who are doing good work and attempts to bring the whole group up to that standard. In this he necessarily, to a large extent, meets resistance on the part of the workmen, who are not slow to realize that much of the lack of production in the factory is due to failure on the part of the executives to do their work properly, rather than on the part of the workmen themselves. Under such conditions we find that although we make an increase in efficiency on the part of the workmen, that increase is not always effective in producing a greater output unless those in executive positions are making the more important decisions intelligently, for an error in the decision of an executive may counteract the beneficial effect of efficient work.

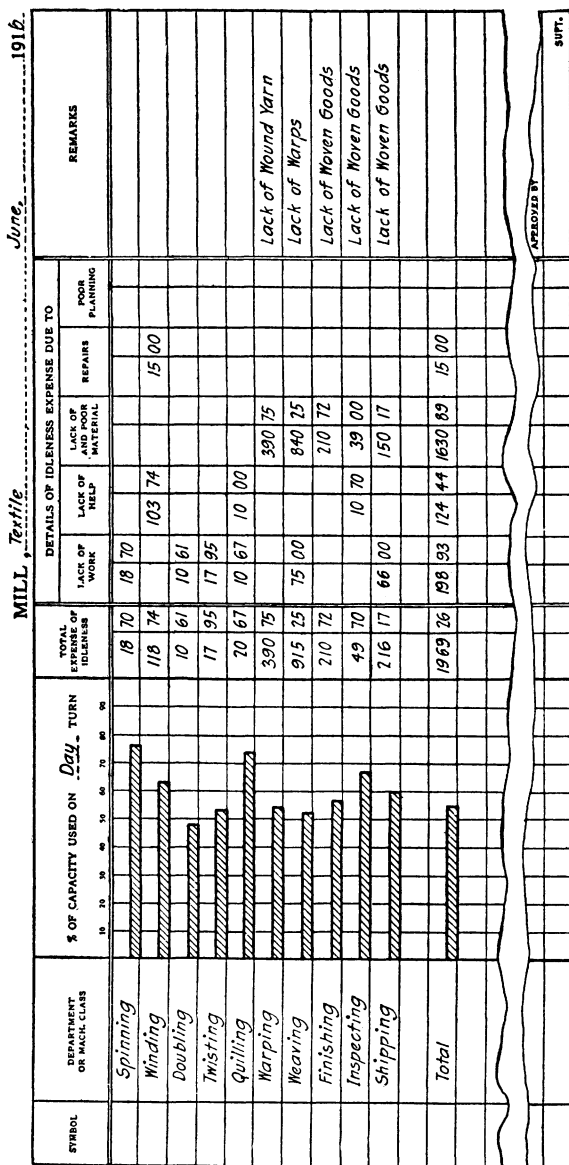


FIG. 1. IDLENESS EXPENSE CHART

We have recently devoted attention at first to those functions which are entirely within the control of the executives, and through properly coördinating them have succeeded in getting the benefit of increased efficiency of whatever kind. Moreover, we get the coöperation of the workmen at once in making studies, for he much prefers to see his work effective than to have it wasted.

It is manifestly to the interest both of the management and the workmen that the machines should run as large a portion of the time as possible, for such a proceeding delivers more product from the works, and makes more jobs for the workmen, which gives them that community of interest which we have heard so much talk about, but which under the prevailing system of cost keeping is absolutely lacking, for it withholds reward from idle labor, which is just, but grants it to idle capital by ignoring the fact that capital may be idle.

It is on this account that I say that a recognition of the expense of idleness and *the allocation of this expense to those who are responsible for it, is the most important economic fact that has been brought to the attention of the business world for many years.* If we will adopt the principle that capital, like labor, is entitled to reward only when it produces some desirable result, we shall have taken a long step forward to still the industrial unrest which is rapidly rising about us.

The adoption of such a cost keeping system is not the function of workmen; it is not a matter on which the workmen can have any effect—it is purely in the hands of those who, through ownership, have control of industries. If they continue to insist that idle capital shall have reward and idle labor shall not have reward, it is entirely possible that the tables may some day be turned by the workmen, who will say not only that capital which produces nothing must have no reward, but that all workmen shall be paid whether they do anything or not. Such action would produce in this country a condition of which the condition in Russia is only a mild imitation. The responsibility of forestalling the possibility of such a condition lies in the hands of our business men, who are only just beginning to learn that business must serve the community as a whole and not one class only.

A partial recognition of this fact by Germany during the past twenty-five years was in a measure at least responsible for the

great industrial prosperity which that country attained before the war. An autocratic military power, for its own purposes, forced the business system to be "somewhat social and civil" and thereby produced an industrial system which was rapidly making itself felt all over the world.

If this great result was attained because the business system was *somewhat* social and civil—in reality only a very little bit—what would the result be if the business system should recognize in a wholehearted manner its social responsibility, and devote itself primarily to rendering service as its first duty? Suppose, for instance, we should recognize coöperation in the production and distribution of socially necessary commodities as our motto, there is no knowing what the reduction in cost to the community would be, and how many men would be freed for other work. We were obliged to do this in a measure during the war to get strength to fight with, but it was done crudely and as a temporary expedient. How much better the results would be for the whole community if it were done as a permanent policy, and by the best men available!

The adoption of such a policy is in the hands of the executives, and if our executives are of large enough caliber they will see that this is the strongest force they can use to oppose socialism, communism, or bolshevism.